

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07
TRSE-00 LAB-04 SIL-01 OMB-01 ITC-01 SS-15 XMB-02
H-01 PA-01 DODE-00 PM-05 /103 W
-----021211 311345Z /47

R 311249Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8971
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY MADRID
AMEMBASSY TOKYO
USMISSION GENEVA
AMEMBASSY BRUSSELS

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USEEC

E.O. 11652: N/A
TAGS: EAIR, GW
SUBJECT: FINANCING OF AIRBUS A-300 SALES

REF: 77 BONN 10945

SUMMARY: SCHOMERUS OF ECONOMICS MINISTRY ON MAY 26
EXPRESSED FRG CONCERN OVER "ANTI-AIRBUS" CAMPAIGN IN THE
U.S. HE SAID WORRY IN THE U.S. OVER THE SALE OF AIRBUS
A-300'S TO EASTERN AND OTHER AIRLINES WAS BASED ON MIS-
UNDERSTANDING OF THE FACTS. HE STRONGLY DENIED THAT
EUROPEAN GOVERNMENTS WERE SUBSIDIZING AIRBUS INDUSTRIE
TO POINT THAT IT WAS ABLE TO COMPETE UNFAIRLY
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AGAINST U.S. MANUFACTURERS AND INSISTED THAT ALL
SUBSIDIES TO THE INDUSTRY WOULD HAVE TO BE PAID BACK.
HE NOTED U.S. DOMINANCE OF AIRLINER MARKET AND URGED
JOINT ACTION TO REMOVE TARIFF BARRIERS TO INTERNATIONAL
SALES RATHER THAN U.S. WORRYING WITHOUT CAUSE ABOUT
WAYS TO LIMIT AIRBUS ACCESS TO U.S. MARKET. END SUMMARY.

1. IN COURSE OF GENERAL DISCUSSION ON AIRBUS INDUSTRIE PLANS AND PROSPECT ON MAY 26, DR. SCHOMERUS OF FEDERAL ECONOMICS MINISTRY EXPRESSED CONCERN AT WHAT HE CALLED AN "ANTI-AIRBUS CAMPAIGN" IN THE U.S. THIS CAMPAIGN, CENTERING ON BUT NOT LIMITED TO THE RECENT PURCHASE OF AIRBUS A-300'S BY EASTERN AIRLINES, WAS BASED ON MISUNDERSTANDING OF THE FACTS, AND, IN THE CASE OF SOME PRESS REPORTS, PURE FABRICATION. AN EXAMPLE OF THE LATTER, SCHOMERUS SAID, WAS THE ALLEGATION IN THE PRESS THAT AIRBUS SALES TO INDIA AND PAKISTAN HAD BEEN

OBTAINED BY OFFERING THE HOST GOVERNMENTS NUCLEAR EQUIPMENT.

2. THE BASIC MISUNDERSTANDING, IN SCHOMERUS'S VIEW, IS OF THE NATURE OF GOVERNMENT SUBSIDIES TO AIRBUS INDUSTRIE. THE IDEA IS TOTALLY FALSE, HE MAINTAINED, THAT THESE SUBSIDIES REPRESENT A CHARGE ON THE EUROPEAN TAX-PAYER FOR THE PURPOSE OF GIVING AIRBUS INDUSTRIE UNFAIR ADVANTAGE IN MAKING SALES. HE INSISTED THAT EVERY PENNY OF THE MONEY MADE AVAILABLE TO THE INDUSTRY IN THE FORM OF SUBSIDIES OR IN GOVERNMENT GUARANTEED LOANS WOULD HAVE TO BE RE-PAID. THIS OBLIGATION, FURTHER, WAS NOT TIED TO THE SUCCESS OF THE AIRBUS PROGRAM. IF SALES OF THE A-300 SHOULD FAIL TO REACH THE BREAK-EVEN POINT, THE INDUSTRY WOULD STILL LIMITED OFFICIAL USE

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BE OBLIGATED TO REPAY THE FUNDS ADVANCED/. SCHOMERUS POINTED OUT THAT US AEROSPACE PRODUCERS HAD TO CARRY LOSSES ON COMMERCIAL TRANSPORT PROGRAMS UNTIL THE BREAK-EVEN POINT AND WERE ABLE TO DO SO IN PART BECAUSE OF PROFITS MADE ON MILITARY SALES, AN ADVANTAGE THAT THE AIRBUS PARTNERS DO NOT HAVE TO A SIGNIFICANT DEGREE. FOR INSTANCE, A LOCKHEED OFFICIAL HAD TOLD HIM THAT LOSSES ON THE L-1011 WERE ABOUT \$100 MILLION PER YEAR. WHILE THE FRG HAD NO OBJECTION TO THIS, IT COULD BE ARGUED THAT LOCKHEED IS RECEIVING, IN THE FORM OF DEFENSE CONTRACTS, AN ANNUAL \$100 MILLION SUBSIDY FOR THE L-1011.

3. ON THE EASTERN PURCHASE, SCHOMERUS ASSERTED THAT THERE WAS NOTHING EXTRAORDINARY ON THE FINANCING OF THE DEAL INCLUDING THE INTEREST RATES OFFERED. THE SO-CALLED FREE LEASE WAS ADMITTEDLY UNIQUE, BUT THE AIRCRAFT CONCERNED WERE FULLY INCLUDED IN THE PURCHASE ARRANGEMENT AT THE FULL PRICE, AND EASTERN GAINED NOTHING FINANCIALLY FROM HAVING HAD USE OF THE AIRCRAFT WHILE THE DEAL WAS BEING WORKED OUT. IF EASTERN HAD DECIDED NOT TO BUY THE AIRBUS, A CHARGE

WOULD HAVE BEEN LEVIED FOR THE USE OF THE AIRCRAFT.
WHILE, ADMITTEDLY, AIRBUS INDUSTRIE WOULD NOT HAVE
RECOVERED ALL ITS EXPENSES, NEITHER WOULD EASTERN
HAVE RECEIVED A FREE LEASE.

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4. SPEAKING MORE GENERALLY, SCHOMERUS POINTED OUT
THAT THE US OVERWHELMINGLY DOMINATES THE INTER-
NATIONAL MARKET IN TRANSPORT AIRCRAFT. THIS WOULD
REMAIN TRUE EVEN SHOULD A-300 SALES SURPASS ALL
EXPECTATIONS. FURTHERMORE, THE A-300 IS
APPROXIMATELY ONE-THIRD US CONTENT AND ITS SPARES
ABOUT EIGHTY PERCENT US CONTENT. OVER ITS LIFE
CYCLE, THEREFORE, THERE SHOULD BE ABOUT ONE-HALF
US CONTENT. HE HOPED THE US, RATHER THAN WORRY
ABOUT RESTRICTING ACCESS TO ITS MARKET ON THE PART
OF EUROPEAN INDUSTRY, AS WAS SUGGESTED BY THE U.S. PRESS

AND BY STATEMENTS TO THE SENATE BANKING COMMITTEE,
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WOULD INSTEAD JOIN WITH EUROPE IN THE CONTEXT OF
MTN IN REMOVING TARIFFS ON CIVILIAN AIRLINERS.

COMMENT: IT IS TRUE, AT LEAST SO FAR AS THE FRG
IS CONCERNED, THAT THE MANUFACTURERS ARE OBLIGATED TO
PAY BACK DEVELOPMENT AND PRODUCTION SUBSIDIES,
ALTHOUGH WE PREVIOUSLY WERE UNDER THE IMPRESSION THAT
PROMOTION AND FINANCING SUBSIDIES (DESCRIBED AS
SUBSIDIES SUFFICIENT TO DROP INTEREST RATES TO
THE LEVEL OFFERED BY THE EXPORT-IMPORT BANK) WERE
NOT CONSIDERED RE-PAYABLE BY THE INDUSTRY. GIVEN
THE FELT NEED TO MAINTAIN AN AEROSPACE CAPABILITY
AND EMPLOYMENT LEVELS, HOWEVER, IT MAY BE
QUESTIONED WHETHER THE GOVERNMENTS CONCERNED WOULD
INSIST ON REPAYMENT OF SUBSIDIES, EVEN WHERE THERE IS
A CLEAR LEGAL OBLIGATION, IF SUCH RE-PAYMENT WOULD BE
A HARDSHIP ON THE INDUSTRY.

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